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ORDER NO. 964

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Nanci E. Langley; and
Robert G. Taub

Priorities for Future Data Collection And Analytical Work Relating to Periodic Reporting

Docket No. RM2011-3

ORDER SCHEDULING TECHNICAL CONFERENCE

(Issued November 10, 2011)

The purpose of this docket is to systematically evaluate the Postal Service's need to update and improve upon the data and analytical methods that it uses to report on the costs, volumes, revenues, and service quality of its products under section 3652(a) of the Postal Accountability and Enhancement Act (PAEA), Pub. L. 109-435, 120 Stat. 3198 (2006). This docket is designed to involve the Postal Service, its stakeholders, and the public in the evaluation process. The objective is to arrive at a consensus as to the priorities that should be assigned to various areas of future research and the nature of the data and analytical methods that future research should employ.

Comments were received from seven participants. In its comments, the Postal Service provided lists of what it characterized as "near term," medium term," and "long term" research topics, distinguishing between the groups on the basis of how much agreement

there seems to be on the basic analytical approach to take, and on the scale of any special data collection efforts that is likely to be required.[1]

The Association for Postal Commerce (PostCom) urges the Postal Service and the Commission to estimate differences in workshare categories' costs through a "bottom-up," rather than "top-down," process, beginning with the costs incurred for pieces of mail that require the least work input from the Postal Service.[2] It also urges the Postal Service to make greater use of Intelligent Mail barcode (IMb) data while phasing out its reliance on Management Operation Data System (MODS) and In-Office Cost System (IOCS) data. *Id*. at 8-11.

The Magazine Publishers of America, Inc., Alliance of Nonprofit Mailers and American Business Media (MPA, et al.) note that mail processing variability is the largest cost center and argue that its volume variability should be empirically based. MPA, et al. argues that mail processing labor costs should reflect the sources of economies of scale indentified by Postal Service witness Bozzo in past rate cases.[3] It says that they should reflect the excess capacity in the mail processing labor force that exists because the labor force reduction has not kept pace with the loss of mail processing volume. *Id*. at 4-5. Like PostCom, these participants urge the use of data from the Intelligent Mail Barcode to model mail processing costs. *Id*. at 3.

Pitney Bowes Inc. notes that the sample volumes for First-Class Presort Flats that are used to estimate unit avoided costs are less than corresponding Revenue, Pieces, and Weight System (RPW) volumes. It argues that this is likely to have artificially inflated unit costs for First-Class Presort Flats, and artificially reduced the cost difference between First-Class Single-Piece and Presort Flats. It asks the Commission to include a review of the cost of First-Class Mail Presort Flats on the list of topics that need further study.[4]

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[1] *See* Initial Comments of the United States Postal Service, February 18, 2011.

[2] Initial Comments of the Association for Postal Commerce, February 18, 2011, at 2-3.

[3] *See* Comments of Magazine Publishers of America, Inc., Alliance of Nonprofit Mailers and American Business Media , February 18, 2011, at 3-4.

[4] Comments of Pitney Bowes Inc., February 18, 2011.

Like MPA, et al., Time Inc. argues that unit mail processing and other labor costs are likely to be lower than unit volume variable costs measured by established methods because of the excess labor capacity created by rapidly declining volumes. It urges an estimate of those costs so that they can provide a basis for Periodicals pricing.[5] It argues that flats cost models are likely to overstate the costs of container handling relative to piece handling. It urges that this relationship be re-examined through analysis of IOCS tallies. *Id*. at 2-3. It suggests that container handling productivities have become stale and need updating. *Id*. at 3-4. It says that clear definitions of the machinability of flats on both AFS 100s and FSS machines is needed to obtain valid mail processing cost estimates for flats, and that the reason that flats are processed manually rather than on automation machines should be studied. *Id*. at 4.

Valpak proposes four areas for research: (1) estimating the systemwide volume variability of costs from a macro perspective; (2) defining and quantifying excess capacity; (3) defining and quantifying short-run marginal costs; and (4) developing a single measure of service performance reliability by product.[6] Valpak Comments at 3-6.

The Public Representative states that product elasticities of demand have many uses in the Commission's duties under the PAEA.[7] He points out that the Postal Service's demand models currently produce elasticities that, in many important respects, reflect the subclass structure that was in use under the prior regulatory regime rather than the product structure that has evolved under the PAEA. He proposes that the Postal Service update its demand models for postal products in a way that reflects the current product list. Id. at 3-6. He also suggests that IMbs should provide reliable data concerning the piece volume that is finished at specific mail processing plants. This, he says, should be used to overcome past data

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[5] Subjects Proposed by Time Inc. for Strategic Rulemaking Pursuant to Order No. 589, February 18, 2011, at 2.

[6] Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Initial Comments on Priorities for Future Data Collection and Analytical Work Relating to Periodic Reporting, February 18, 2011 (Valpak Comments). *See* attachment *Suggestions for Data Collection and Analysis*, by Dr. John Haldi.

[7] Initial Comments of the Public Representative, February 18, 2011, at 3-6.

quality problems that prevented successful econometric modeling of the volume variability of mail processing labor. *Id*. at 9-10.

Order No. 589, which initiated this docket, envisioned that after initial comments were received a public forum would be held to address the question of what future research into costs, volumes or revenues estimation is most urgent and is most likely to generate useful information, given the limited time and resources that the Postal Service currently has available to devote to such research.[8] In order to lay the groundwork for a productive discussion at the public forum, the Commission will host a technical conference to obtain an update from the Postal Service on the progress that it has made since it filed its initial comments last February on the various data collection initiatives and special studies that it described in its initial comments or that it has since instituted.

The Postal Service and the Public Representative recognize that an update of the Postal Service's volume variability model of city delivery carrier street time is a major area of future cost research that is in need of updating. In a separate docket, the American Catalog Mailers Association (ACMA) makes an urgent appeal for re-examining the established method of estimating attributable street time costs.[9]

Based on these concerns, the Commission believes that it will help interested parties to prepare for a public forum on the priorities that should be established for costing research to have the benefit of a detailed examination of the feasibility of adapting existing data collection systems to support an updated econometric model of carrier street time variability.

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[8] Notice and Order of Proposed Rulemaking on Periodic Reporting, November 18, 2010, at 4 (Order No. 589).

[9] In Docket No. R2012-3, ACMA cites estimates of unit attributable street time costs for letters and flats recently produced by the Bradley model that it considers counter-intuitive and invalid. It cites large fluctuations in the rate of unit cost increases over time, a wide divergence in the rate of increases for letters versus flats, and a sometimes wide divergence of unit attributable street time cost increases and contemporaneous increases in Total Factor Productivity. ACMA argues that the instability of these estimates over time and across products discredits them to the degree that they do not provide a valid basis for setting product prices or for evaluating the consistency of product prices with the PAEA. *Id.* at 7-11. It suggests that the Commission is obligated to investigate the reasons that these estimates do not appear to yield valid or meaningful results. *Id*. at 4-5.

The Postal Service's responses to CHIR No. 1 imply that the current street time variability model is unlikely to be representative of current street delivery operations due to pervasive changes that have occurred in the street delivery environment since FY 2002 when the City Carrier Street Time System (CCSTS) data on which the current variability model is based were collected.[10] It discusses the desirability of conducting a pilot study of the ways in which Delivery Operations Information System (DOIS) data for a subset of carrier routes might be made suitable for econometric modeling by collecting it according to special quality control procedures and supplementing it with additional measures of volume and a finer functional breakout of hourly carrier activity. The Postal Service also discusses the potential of adapting data collected on Form 3999, which forms the basis of special route evaluations to the needs of a street time variability model.

At the technical conference, the Commission would like to follow up on the observations and suggestions of the Postal Service with respect to updating the street time variability model. This will allow the Commission and the postal community to better evaluate the feasibility of a street time variability pilot study and the form that such a study should take. At the technical conference, the Postal Service is requested to make available its experts on delivery operations, data collection, and the modeling of street time variability to discuss the objectives of a pilot study, what candidate data sources should be investigated, and what variables should be included in a suitable street time variability model. These experts should be prepared to discuss the suitability of adapting data from Form 3999 to support the modeling of street time variability.[11] They should also be prepared to discuss the suitability of adapting data from the Carrier Optimal Routing (COR) program and the City Delivery Pivoting

[10] *See* Responses of The United States Postal Service to Questions 1-3 of Chairman's Information Request No. 1, August 23, 2011.

[11] The Postal Service uses Form 3999 to document special city delivery carrier route inspections. It appears to be a systematic attempt to identify, measure, and record all of the factors that might have a significant effect on the time that the carrier spends on the street. In that sense, its purpose appears very similar to the purpose of using an econometric model to determine the volume variability of street time. For that reason, it seems worth evaluating either as a potential source of data, or a means of identifying relevant variables, for an econometric model of city delivery carrier street time. For reference, a Form 3999 and an interpretive guide to filling out that form are included as separate .pdf files to this Notice.

Opportunity Model (CDPOM) to support the modeling of street time variability, as well as any other sources of operational data that can improve the data quality of DOIS for the determination of the variability of city carrier street time by shape.[12] Finally, they should be prepared to discuss the feasibility of altering either DOIS or the location of Managed Service Points (MSPs) or other aspects of street time operations that could help establish the necessary cost pools.

In addition to addressing the form and timing of a street time pilot study at the technical conference, the Postal Service should be prepared to describe the status of other cost studies that are planned or are currently underway, such as the studies of Purchased Highway Transportation Costs, Postmaster Costs, and Window Service Time, which it categorized as short-term studies under Section III of its Initial Comments. As noted above, several participants advocated taking a new analytical approach to estimating the volume variability of mail processing labor based on volume data adapted from the IMb database. The Commission is considering the possibility of hosting a separate technical conference that would have that proposal as its main focus.

The technical conference described above is scheduled to convene at 9:30 a.m. on January 12, 2012 in the Commission's hearing room. Ten days before the technical conference, the Postal Service is requested to file as a library reference in this docket detailed descriptions of the Carrier Optimal Routing (COR) and the City Delivery Pivoting Opportunity Model (CDPOM) programs. These descriptions should include the databases assembled in the course of applying those programs, and an explanation of how those data are used by those programs.

Shoshana M. Grove
Secretary

[12] For a description of the COR and CDPOM programs see *U.S. Postal Service: Mail Delivery Efficiency Has Improved, but Additional Actions Needed to Achieve Further Gains*, GAO-09-696, July 2009, at 26-35.